



Office of Audit Services
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September 16, 2008

AGENDA ITEM 5

TO: MEMBERS OF THE FINANCE COMMITTEE

I. SUBJECT: External Audit Fees – Fiscal Year 2007/2008

II. PROGRAM: Audit Services

III. RECOMMENDATION: Information Only

IV. ANALYSIS:

Financial Statement Auditor Fees

Pursuant to the Finance Committee Charter, the Office of Audit Services reports annually all audit services provided by Board of Administration's Independent Financial Statement Auditor. Such reporting is consistent with the Sarbanes-Oxley Act of 2002 for monitoring financial statement auditor independence. Consistent with the Finance Committee Charter, the Board's financial statement auditor did not perform consulting services while responsible for auditing the financial statements. The services listed below were pre-approved by the Finance Committee and were performed under AICPA generally accepted auditing standards and attestation standards.

The table below shows the fees paid for audit-related activities performed by the Board's Independent Financial Statement Auditor, Macias Gini & O'Connell, LLP. The activities include (a) the audit of CalPERS' financial statements for the Fiscal Year ended June 30, 2007 (F/Y 2006/07), (b) the audit of the financial statements

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for the Volunteer Firefighters' Fund for the period July 1, 2007 through February 27, 2008, and (c) three special projects. The costs listed are based on the amount required to complete each project. Note that the financial statement audit work for the Volunteer Firefighters' Fund is for a period included in Fiscal Year 2007/08. The special projects are agreed-upon-procedures engagements that are listed in the Biennial Audit Plan for 2007/08 approved by the Finance Committee and the Board. The work by Macias Gini & O'Connell on three projects was approved the Chair of the Finance Committee, and then the Committee was informed during the February 2008 meeting.

Financial Statement Auditor Fees		
Audit Firm	Total Paid	Purpose
Macias Gini & O'Connell, LLP	\$ 508,707	Audit of Financial Statements for F/Y 2006/2007 (Paid over two fiscal years)
Macias Gini & O'Connell, LLP	\$ 26,563	Audit of the financial statements of the Volunteer Firefighters' Fund, as of February 27, 2008
Macias Gini & O'Connell, LLP	\$ 122,468	Special Projects: Reviews of (a) Global Equities GP, (b) Corporate Governance GP, and (c) Long-Term Care
Macias Gini & O'Connell, LLP	\$ 657,738	Total for all activities

Real Estate Compliance Auditor Fees

The Finance Committee Charter also requires reporting all audit activities and associated costs of work performed by other external audit firms engaged in audit and attest activities. The table shown below illustrates the schedule of fees of \$377,074 invoiced for real estate compliance audits performed by the Board's independent real estate auditors through 6/30/2008. The table below is presented on a cash basis rather than an accrual basis. In addition, there are numerous real estate compliance audits in process that are funded by the F/Y 2007/08 budget, and we expect to expend nearly the entire \$1.5 million budget for these real estate compliance audits.

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Additionally, the Conrad Government Services Division of Mayer Hoffman McCann performed incentive fee audits for the Real Estate Unit and audit services for the R Street Project as shown at the bottom of this table.

Real Estate Auditor Fees		
Audit Firm	Paid	Purpose
KNL Support Services	\$ 44,571	Real Estate Partner Compliance Audits for F/Y 2007/2008
Marsh	\$ 88,732	Real Estate Partner Compliance Audits for F/Y 2007/2008
Mayer Hoffman McCann PC	\$ 22,922	Real Estate Partner Compliance Audits for F/Y 2006/2007
Mayer Hoffman McCann PC	\$ 88,316	Real Estate Partner Compliance Audits for F/Y 2007/2008
Reznick Group	\$ 4,950	Real Estate Partner Compliance Audits for F/Y 2007/2008
Squar Milner	\$ 127,583	Real Estate Partner Compliance Audits for F/Y 2007/2008
Total Real Estate Compliance Audits Invoiced to 6/30/2008	\$ 377,074	
Mayer Hoffman McCann PC	\$ 127,851	Real Estate Partner Incentive Fee Audits for F/Y 2007/08
Mayer Hoffman McCann PC	\$ 15,308	R-Street Project for F/Y 2006/2007
Total for All Real Estate Audit Activities	\$ 520,233	Total for all activities

Health Plan Auditor Fees

Two health plan audits were performed as shown in the table below.

Health Plan Auditor Fees		
Audit Firm	Amount	Purpose
Wolcott & Associates	\$ 19,500	Audit of Blue Cross of California Operations
Wolcott & Associates and HealthLinX*	\$ 169,500	Pharmacy Benefit Manager Audit
Total for External Health Auditors	\$ 189,000	Total for all health audit activities

*At this time, no payments have been made for the pharmacy benefit manager audit of CareMark by Wolcott & Associates and HealthLinX during F/Y 2007/08. Payment will be made upon acceptance of the final report.

V. STRATEGIC PLAN:

This item is not a specific product of the strategic plan, but is required by the Finance Committee's Charter.

VI. RESULTS/COSTS:

This is an information item and does not result in any risks/costs. These audits provide the Board of Administration independent audit opinions regarding the financial reporting and disclosure of the systems assets, liabilities, revenues, and expenses of all funds for member benefits. Real estate audits provide assurance over real estate contract compliance and real estate incentive fee payments. Health plan auditors provide review selected aspects of health contractor activities.

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Staff is available to answer any questions that the Finance Committee may have.

LARRY JENSEN, Chief
Office of Audit Services

PETER H. MIXON
General Counsel